

# Vanderlip Foresees New Financial Relationship With Europe



PRESIDENT PADEREWSKI of POLAND  
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**Declares Every European Credit Is in Critical State, but Says There Is No Lack of Sound Basis and America Cannot Afford to Keep Her Dollars at Home**

## What Happened to Europe.

This is the fourth of five installments of "What Happened to Europe," written by Frank A. Vanderlip, who recently resigned as president of the National City Bank and has long been recognized as one of the leading financiers of the country. His account of industrial, social and financial conditions overseas is based on a three months personal and exhaustive investigation.

By FRANK A. VANDERLIP.

## CHAPTER X. Credit.

CREDIT is so delicate a thing it is dangerous to talk about it. If a credit is to be weighed and analyzed, and the chance of its failing to be repaid appraised, the not unusual course of the conservative financier or investor is to say that he wants nothing to do with it.

There is not a credit in Europe today that does not need to be weighed and its chance of repayment carefully appraised, but it will not do for America to say that she will keep her dollars at home henceforth and get into no further entangling foreign financial alliances. One American financier in Europe summed up his view of the situation by saying that he would advise his partners henceforth to keep very close to shore. My reply was that keeping close to the shore might result in having a hole stove in his boat. America cannot keep close to the shore. We are launched, whether we like it or not, in the world's current. We have moral responsibilities that should and will appeal to us, but if we only look at the situation on the narrowest of material grounds, and look with clear vision, we will understand how involved is our civilization with the civilization of Europe, and we will comprehend what it will mean if by failing Europe in her hour of great need we prematurely injure the fabric of civilization there.

## Britain's Vast Debts.

The British Chancellor of the Exchequer looks forward to British taxpayers facing an annual budget after the extraordinary expenses of demobilization have been met, of £765,000,000, which is £114,000,000 more than he can foresee as likely to come into the treasury from the present rate of taxation. The cost of the war after demobilization will amount to the world. From April 1, 1918, to the day of the armistice Great Britain's war expenditures were £7,442,000 per day. From the armistice to March 31, 1919, they have averaged £6,476,000 per day. From the armistice to April 1, 1919, England paid out £52,000,000 in gratuities to the members of the forces who were demobilized, and unemployment doles absorbed £13,000,000, that figure, of course, being since much increased, as it grows by one million and a quarter pounds a week. England set an example in taxation to all nations. In the year ending April 1, 1919, 34½ per cent. of her total expenditures were provided by taxes, and for the five years of the war ending April 1, 1919, 28½ per

cent. of the total war cost was provided from revenue. At the outbreak of the war the British national debt was £645,000,000. On March 31, 1919, it was £7,435,000,000, of which £6,885,000,000 was internal and £1,850,000,000 external. The forecast for the year ending March 31, 1920, indicates an expenditure of £1,435,000,000, and a revenue of £1,160,000,000, with a deficit to be met by borrowing of £275,000,000, although the Chancellor prefers to make a safer estimate and put the new loans necessary as totalling three hundred million pounds.

That does not measure the borrowing the Treasury faces, however. The floating debt on March 31 amounted to £1,413,000,000. Most of this is in three months Treasury bills, and constant appeals to the market must be made to renew these floating obligations. On top of this are the national currency notes, demand obligations of the Government in the form of circulating notes, which on April 23, 1919, stood at £249,000,000, and were supported by a gold reserve of £28,800,000. Their amount is steadily rising. The aggregate amount of legal tender money of England, which at the beginning of the war was £214,000,000, is now more than £540,000,000.

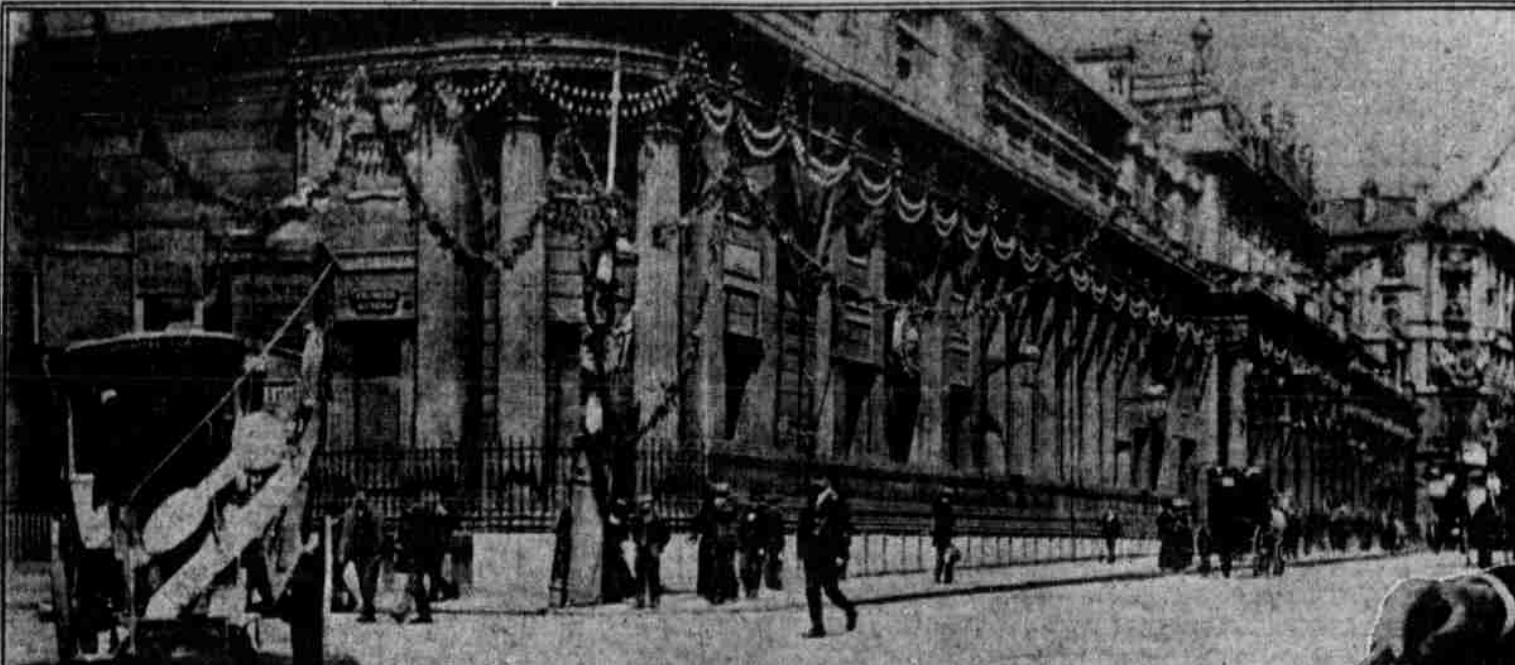
These figures take no account of the obligations owed to England by her allies and Dominions. These obligations on March 31, 1919, amounted to £1,734,000,000.

## Fictitious Wealth.

As Mr. Chamberlain wisely observes, the hard, inexorable economic facts of Great Britain's financial position are obscured by a fictitious appearance of wealth. There is between two and three times as much legal tender money in circulation as there was before the war. The deposits of the joint stock banks have more than doubled. Almost all of their additional deposits are represented in their portfolios by short dated Government securities. The average figures indicate that about 46 per cent. of British bank portfolios is in Government obligations. The great French banks by comparison show about 80 per cent. of their portfolios in Government paper.

I am not going to burden these pages with any statistical analysis of the financial position of the various Governments. The position of every one of them that was directly involved in the war may be frankly accepted as critical. To England one might perhaps better apply the word "difficult" than "critical," but as for the rest, the position of the domestic bank portfolio gives promise of unpleasant eventualities either in the way of scaled obligations or depreciation of the currency in which the debt is measured, or of such a direct tax as the voters of Switzerland have just imposed. M. Klotz, the Finance Minister of France, has a fairly clear economic understanding of the problem, proposed a capital tax in France. The proposition met with such a roar of opposition that it was dropped almost as soon as it was proposed.

In the chapter on France I have given some indication of the national financial burdens. In Italy the national debt is less, but its crushing weight is proportionately as great, particularly in view of Italy's comparative poverty in natural resources. When we turn our attention to Poland, Lithuania, Czechoslovakia, Jugoslavia, and Greece, to say nothing of Germany, Austria and Turkey, the situation presented in each case is desperate. Just how desperate no one could measure, because to-day no one



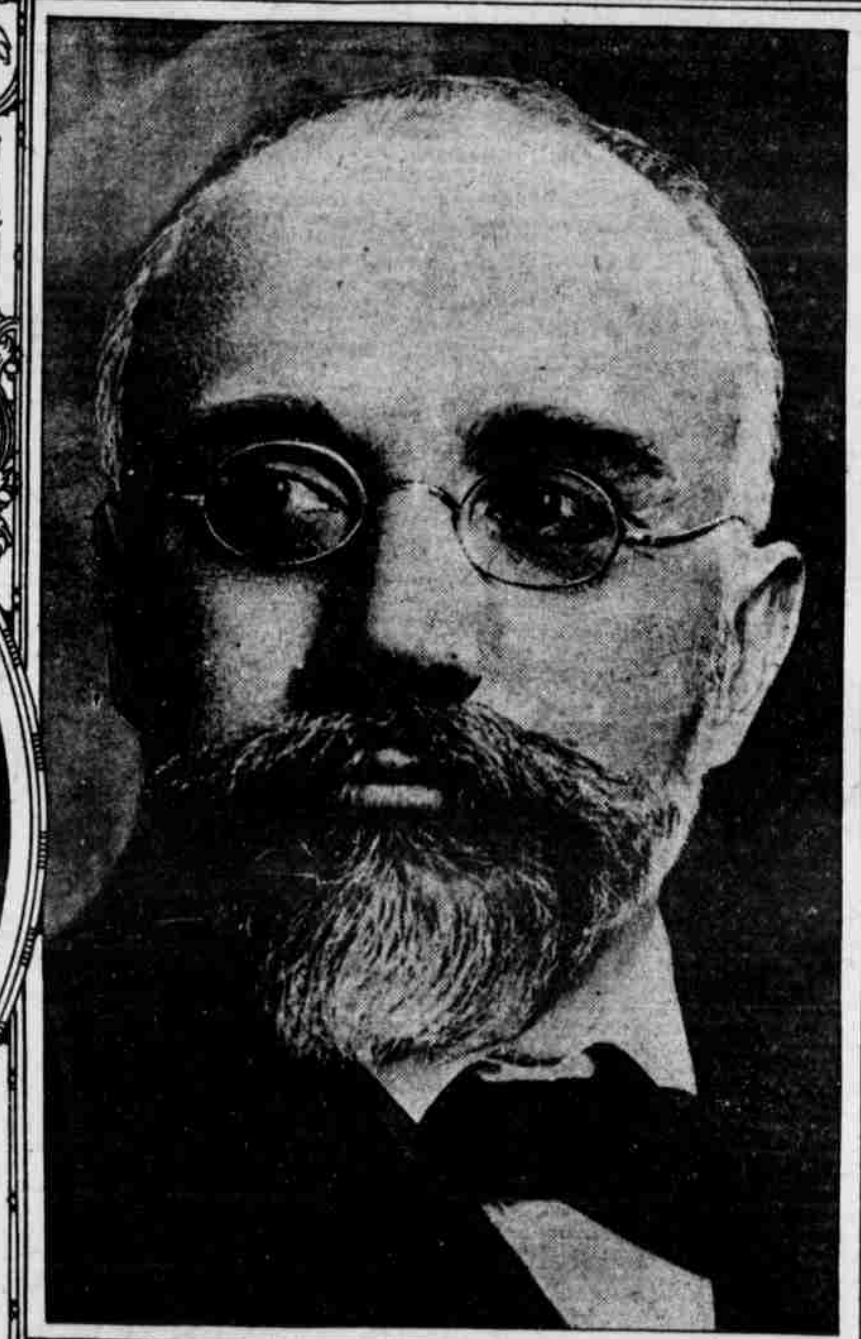
The BANK of ENGLAND



M. KLOTZ, FRENCH MINISTER OF FINANCE



THOMAS MASARYK, PRESIDENT of CZECHO-SLOVAKIA



PREMIER VENIZELLOS of GREECE.

A BONAR LAW, BRITISH CHANCELLOR

**Bolshevism Holds Russia Outside the Pale of Capitalistic Consideration—New Nations Must Await Recognition**

liabilities; and borrowers at least do not keep clearly in mind that the banks are the greatest borrowers of all, and that they owe all of their resources, except the modest percentage that represents their capital; and, more than that, stand committed to the repayment of their debt on demand. All this means that wise bankers will not tie up in long term credits the funds that they owe to depositors on demand. The credit that represents goods in transit, raw material in process of manufacture, products moving directly into consumption is the ideal form of credit for bank loans. All credits that inherently have in them the power of self-liquidation is the proper use for bank resources.

When a bank begins to loan against a commodity in transit, and further agrees to renew those loans for a period of a year or two after the commodity that formed the original basis of the loan has passed into consumption, the bank has engaged in financing rather than banking. If it takes on much of this character of business it is on dangerous ground. Personally, I believe one of the few serious errors in disregard of the sound principles of banking which the Federal Reserve Board has made has been to permit the rediscounting of bills that have been drawn under agreements to renew. Such bills cease to have any self-liquidating character, after the goods against which they were drawn passed into consumption while the payment of the original bill is extended.

## Opportunity for American Banks.

The role that American banks can play in the credit situation in Europe is of vast importance, and if they will hold firmly to the lines of sound commercial banking it is a role which they can play with security and profit. Never was there greater need, however, for a firm of bankers, of the fundamental principles of sound banking. There will be presented most attractive opportunities to make bank loans under conditions and for terms that will take the loan out of the category of proper banking and put it into the form of financing. If bankers are firm in adhering to principles they will leave such loans to be worked out in other ways and will perform their true function by making loans that have within themselves the inherent power of self-liquidation.

I am quite aware that great and apparently successful systems of banking have been built up on the continent in apparent disregard of the principles which I have here been emphasizing. The German banks were deeply interested in German industry. The same is true in a measure of Italian banks to-day. In France too little encouragement has been given to industry by the banks and too much emphasis has been laid upon the profits made by floating securities. If some of the billions of French capital, which under the stimulation of banking propaganda found its way into Russian and Turkish loans, had been invested in French industry, the present position of France would be less unhappy. In England the sound traditions of commercial banking have been, much more closely adhered to than on the continent, but England is now off the gold basis and there is an encountering obstacles in the field of world-banking which seemed very difficult to surmount.

American bankers have an opportunity in the field of world banking brilliant beyond any conception which they have heretofore had. If they will rise above the provincialism in which they have been trained and still

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knows what is the debt of any of those countries. They have been made up by a redrawing of national lines, but it was found easier to draw national lines, infinitely difficult as that task is, than it was to reapportion to the new nations with a just allocation that part of the old debt of the nations from which the new countries have been made.

Anything like a discussion of the national finances of most of these new nations with a view to definite action is wholly impossible until the Governments which they have temporarily set up have been formally recognized by the great Powers, and that recognition, up to the moment when this is given, has not been definitely given. Such nations as Poland, Lithuania and Czechoslovakia might conceivably go to their own nationals in America and raise a certain amount of credits without having the basis of those credits very closely scanned, but even that is impossible until the United States has officially recognized those Governments. Rumania has a better founded claim on national credit than the other smaller nations mentioned because her existing debt is not overwhelming and her resources in oil and agriculture are very great indeed. But even so, she is not at the moment in a position to command even a part of the credit that she vitally needs.

## All Open to Vital Objection.

In any consideration of credits in Europe, whether they be national or individual, whether they be secured by claims upon the German indemnity as collateral or offered by corporations or individuals of wealth, they are all open to one vital objection. There is no political safety in Europe anywhere so long as there is left any country unable to command a sufficient amount of credit at least to make the beginning of an attempt to restart its idle industries. I have said elsewhere, but it cannot too often be repeated, or too clearly kept in mind, that paralyzed industry, idle workmen, stoppage in the flow of manufactured

things, and the want and hunger which must follow as a consequence, all of which is emphasized by the breakdown of domestic transportation, spell Bolshevism.

If the foregoing is a correct view, then Europe must be looked at as a unit and one must cease trying to find a nation here or there, or a loan of one character or another that in itself is thought to offer a fair basis of security. There cannot be security in an atmosphere where Bolshevism is contagious, and where an outbreak of one centre is almost certain to be communicated to adjacent regions. Any attempt to grant credit facilities for the rehabilitation of Europe must, I believe, be so comprehensive in its character as to embrace at least a serious effort to restart the industrial cycle in all the European countries. I did not include Russia in that category because, for the time being, Russia is outside the pale of capitalistic consideration, for there is no government with which capital can contract. Bolshevist Russia must, for the present, be economically isolated as a patient too dangerously involved with contagion to permit any financial intercourse.

Are we then to give up the task as hopeless and mark the whole field as too dangerous for timid dollars to enter? My answer would be that under no circumstances should we do that. It would be morally cowardly, and financially more dangerous than would be an intelligent attempt to grapple comprehensively with the problem.

How, then, shall we take hold of it? If we cannot let the usual principles of credit govern our financial decisions, if all Europe is so knit together that we must be guided by the necessities rather than by the security that individual countries can offer, how can we make a beginning?

In the first place, to put it frankly, Europe is in a situation where to my mind she must needs give receiver's certificates for the credit to get her

going again. By receiver's certificates I mean national obligations having a prior lien upon the national income. It would perhaps be impossible to get any one of several nations to offer such security, if approached individually, but I believe if an identical formula were presented to each nation, and if all were alike asked for a prior lien, the difficulties of national pride would be more easily overcome. I will not here go into the details of a plan which has been suggested to our own Government and to leading European officials and financiers. Perhaps before these pages are printed that plan, or some modification of it, or some other plan that recognizes the principle of dealing with Europe as an entity, will have been agreed to. In any case, events are travelling too fast to make the pages of a book a suitable place for such a current discussion. I will merely presume that some way is to be found to grant the first credits that are so vitally essential to provide each of these nations with a certain amount of machinery, raw material and railroad equipment to permit a beginning in the direction of restarting the industrial cycle, and I will pass to some consideration of what the next step may be.

## Sound Basis Not Lacking.

Let no one think that Europe is lacking in a sound basis for obtaining all the credits that the lending nations can possibly extend, provided Europe gets fairly started back on a return to normal economic life. Not only is Europe enormously rich, but there is inherent in the present situation a power of rapid recovery, if the tangle can only be straightened out, which will set the continent in the direction of recovery. If industry is not promptly restarted the possibilities involved are too black to picture, but if all the right conditions can be faced in the right direction it would be possible to wipe out most of the scars of war in an amazingly short time.

If I read the situation aright, there

is to be a new type of financial relationship. Europe lacks credit, but it has something that America lacks. It has experience and an understanding of international business which goes in many instances far beyond our own experience. It seems to me that this should be the best of grounds for a partnership in commercial and industrial affairs. We would bring to the partnership capital and a certain amount of imagination and vigor, while the Europeans would bring an industrial plant and a commercial organization thoroughly experienced in fields where we have not adventured.

The cotton mills of Italy give an outlook into the Near East and I believe it would be greatly to the advantage of cotton interests ambitious to extend markets in that direction to work with Italian cotton mill interests. The Italians have been extremely clever of late years in the production of cheap goods for the Near East. They have an abundance of labor. They lie on a route between our cotton fields and the ultimate market and they know the market.

Belgium has done successful industrial engineering quite around the world. She has strong men with practical experience of construction and installation over the widest territory. They have a great number of plants of one sort and another operating in almost every important country, and they have many projects in hand that have been studied, some of which are ripe for execution. There could be a partnership of American capital and industry formed with Belgian experience in industry which might play a great international role.

There is no more dreadful error to be made by America than narrowly to conclude that foreign trade means merely selling out products and to close our minds to the idea of helping rehabilitate and making future markets for the product of European industry. Some may hold the opinion that a loan of credit to rehabilitate industry in Europe would be merely a loan to help our industrial competitors more quickly to get back to a position where they can outstrip us in competitive markets and therefore we had best keep our credits at home and push our present commercial advantage. It seems to me that this conception is as seriously wrong as possible. Foreign trade is interchange and distinctly not to be conceived of as merely selling by one country to other countries. As European industry is rehabilitated and as surplus products are made that can be exchanged for the surplus products of other countries, the world will get back to something like normal life.

## Question of Banking Credits.

Of course banking credits will ultimately come into the picture, but there are great misconceptions in the minds of Government officials, of business men, and I would even venture to say in the minds of some bankers, as to the proper function of bank credit in such a situation as the present one. I have always felt that it was salutary to look at a bank, not as an inexhaustible fountain of credit, but rather as the greatest debtor in the commercial world. We are apt to speak of the resources of a bank instead of that exactly counterbalancing figure, its